

NSC BRIEFING

26 March 1958

**NATIONALIST CHINESE-JAPANESE RELATIONS**

- I. Nationalist Chinese-Japanese relations have seriously deteriorated over the past two weeks because of nationalist objections to a recently concluded Japanese private trade agreement with Communist China.
  - A. Chiang particularly objects to provision allowing Communists to fly their flag in Tokyo.
    1. He is not likely to compromise on red flag.
- II. On 18 March Nationalists broke commercial relations with Japan following earlier suspension of negotiations for trade agreement.
  - A. Stopping trade will hurt Taiwan more than Japan; Japanese can get sugar and rice elsewhere.
    1. Nationalists may be forced to ask US to bail them out.
- III. Nationalists are ready to take further reprisals against Japan if controversy continues at present emotional pitch.
  - A. Possible actions include:
    1. Promotion of boycott of Japanese goods by pro-Nationalist Overseas Chinese.
    2. Seizing Japanese merchant ships sailing near Taiwan, presumably bound for mainland ports.
    3. Staging popular demonstrations against Japanese at Taipei.
- IV. Japanese-Chinese Communist agreement is for \$98 million each way. It includes COCOM embargoed goods.

State Dept. review completed

A. Agreement not really vital for Japanese trade; chief significance is political.

V. Prime Minister Kishi publicly accused trade representatives of exceeding their authority in agreeing to terms which only the govt can grant, [REDACTED]

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A. Kishi informed Ambassador MacArthur he would not resist pressures for trade with mainland since this is an election year.

VI. Japanese foreign ministry official believes Peiping will not give up the right to fly its flag.

A. He feels Communists consider flag issue an excellent opportunity to irritate Japanese-Nationalist relations which is even more important than trade.